

MOTION BY SUPERVISOR JANICE HAHN

May 8, 2018

**Support AB 2731: Closing the Carried Interest Loophole**

In March 2018, the Congressional Budget Office published *The Distribution of Household Income*. According to the analysis, income distribution is skewed towards the top. For example, the average income of the top 20 percent of households is more than ten times the average income of households of the bottom 20 percent. Income inequality is even greater among households with the highest earnings with the top 1 percent earning 10 times more than those within their quintile with an average household income of \$1.77 million. Income inequality is expected to grow over time; however, there are common sense tax reforms that can help address inequality.

One of these reforms is the closure of the carried interest loophole. When General Hedge Fund or Private Equity Partners manage funds for a client, the parties enter into an agreement and set an expected rate of return for the fund, also known as the hurdle rate, and use this as a benchmark. If the fund returns exceed the hurdle rate, the Partner receives about 20% of the profits as a reward, which is known as carried

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**MOTION**

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interest. Carried interest is not taxed like regular income—it is taxed at 20 percent instead of 37 percent. This 17 percent gap is an unfair loophole because for most people, a bonus or commission is taxed at the regular income tax rate.

Assemblymember Mike Gipson introduced AB 2731, the Closing the Carried Interest Loophole bill. This bill would impose a 17 percent tax on investment management services, also known as carried interest income, among other provisions. According to estimates, AB 2731 would generate between \$500 million to \$1 billion in State revenue. The revenue from this tax would be used for early childhood education, career technical education, social-emotional learning, positive behavior interventions and supports, and trauma-informed strategies.

Hedge fund and private equity billionaires should not get a lower tax rate than kindergarten teachers and truck drivers. The County should support closing the carried interest loophole and investing in education.

**I, THEREFORE MOVE** that the Board of Supervisors instruct the Chief Executive Office to send a five-signature letter in support of AB 2731, the Closing the Carried Interest Loophole bill to the Los Angeles County State Legislative Delegation, members of the Assembly Appropriations Committee, and Governor Edmund G. Brown, Jr.

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